Supreme Court of the United States

October Term, 19

No.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1960

No. .....

SARKES TARZIAN, INC., A Corporation
Petitioner.

v.

AUDIO DEVICES, INC., A Corporation;
AUDIO DEVICES, INC., RECTIFIER DIVISION, A Corporation;
AUDIO MANUFACTURING CORPORATION, A Corporation;
DISTRICT PRODUCTS CORPORATION, A Corporation;
GEORGE J. EANNARINO,
ROBERT G. PARSON,
FRANK GILLESPIE,
HUBERT G. DOHMEN,
CHARLES C. L. SMITH,
CLARENCE WILLIAM CHESNUT,
ERNEST C. FRIES,
FREDERICK G. SCHULLER,
and DOE I to DOE C, inclusive,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Sarkes Tarzian, Inc., your Petitioner, prays that a writ of certiorari issue to review the judgment of the United

States Court of Appeals for the Ninth Circuit, entered in the above-entitled case on November 21, 1960.

OPINIONS BELOW

The opinion of the District Court (R. 78-149) is reported at 166 F. Supp. 250.[1] The opinion of the Court of Appeals (infra, Appendix A, p. 26) is reported at 283 F. 2d 695.

JURISDICTION

The judgment of the Court of Appeals was entered on November 21, 1960 (infra, Appendix B, p. 27). No petition for rehearing was filed. The jurisdiction of this Court is invoked under the provisions of 28 U.S.C.A. Section 1254 (1).

QUESTIONS PRESENTED

1. Whether the lower courts ignored California law of trade secrets in defining a trade secret as a "particular form of construction of a device, a formula, method or process that is of a character which does not occur to persons in the trade with knowledge of the state of the art or which cannot be evolved by those skilled in the art from the theoretical description of the process, or compilation or compendia of information or knowledge" thus: (a) applying an erroneous test in determining that Petitioner had no protectible trade secret in its certain manufacturing process, and (b) arriving at the erroneous conclusion that the process for manufacture of silicon rectifiers, developed by Petitioner, was "readily ascertainable" to the trade.

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1. Inasmuch as nine additional copies of the record as printed for the use of the Court of Appeals have been filed pursuant to Rule 21 (4) the opinion of the District Court is not appended to this Petition. Rule 23 (1) (i).

2. Whether the lower courts ignored California law of trade secrets in determining that Petitioner's process for manufacturing silicon rectifiers was not substantially appropriated by Respondents.

STATEMENT OF THE CASE

This case involves basically the question whether or not the individual Respondents, former employees of Petitioner, and Respondent Audio Devices, Inc. (Audio) wrongfully appropriated to themselves Petitioner's claimed trade secrets in a process for manufacture of silicon rectifiers. The facts, briefly, are as follows:

Petitioner, Sarkes Tarzian, Inc., was, from about 1949 to the present date, engaged in the manufacture of selenium rectifiers. The selenium rectifier represented an advance over the use of expensive and bulky vacuum tubes for the conversion of alternating electric current to direct current required by radio and television sets. Such rectifiers met the need for low price, miniature rectifiers possessing the requisite resistance to heat.

In late 1955, Petitioner, with the intention of engaging in the manufacture of the relatively new silicon rectifier, purchased, for $160,000.00, the plant of the Silicon Corporation of America (Silcoa) and removed some of its personnel, its equipment and inventory to Bloomington, Indiana, where it established its silicon rectifier operation. (Fdg. 10, R. 155.) At the time this silicon program was initiated by Petitioner, Respondent Eannarino was the Director and General Manager of Petitioner's selenium rectifier division, and Respondents Parsons, Smith, Chesnut, Fries and Schuller were highly placed technical and administrative employees of the Rectifier Division (R. 226-228). All, except the accountant, Schuller, had signed

agreements to respect plaintiff's research and manufacturing processes as trade secrets (Pltf. Exs. 40-46 incl.). Respondent Oleksy and the other former employees of Silcoa, similarly signed such agreements to respect as trade secrets and confidential information all of the research and engineering work of Petitioner immediately upon accepting employment with it. None of the individual Respondents, except Oleksy, had prior experience in silicon, or, more particularly, the manufacture of silicon rectifiers (R. 190, 688-690, 980-981).

The entire research and development program on silicon rectifiers was designated as secret and confidential by the Sarkes Tarzian, Inc. management (R. 210-212, 591-592, 622-624) (Pltf. Exs. 47, 48, 49, 51, 52, 53, 54, 55). No evidence was introduced by Respondents contradictory of Petitioner's proof that its silicon rectifier program was designated and consistently protected as secret by the management of Sarkes Tarzian, Inc., and the Court made no finding that such was not the case.

Not until late summer of 1956, after intensive research and development, did Petitioner feel that it could announce a successful silicon rectifier available to the trade (R. 199, 624-5). Such announcement was made by Respondent Eannarino, who claimed an original and sensational "first" on behalf of Petitioner (Pltf. Exs. 1-34, incl.) By late spring of 1957, manufacturers of radio and television sets had approved and were using Petitioner's silicon rectifier as original equipment (R. 626). Petitioner was the only company manufacturing a radio and television type silicon rectifier which was accepted by and sold to original equipment manufacturers in any quantity and, as of mid-1957, Petitioner was experiencing no substantial competition in this field (R. 241, 576, 609, 649-650) al-

though other companies were seeking to develop competitive products.

On or about July 20, 1957, Respondent Eannarino approached Audio Devices, Inc. with the proposal that that company back him in his plan to start a competing silicon rectifier business (R. 367-377, 560-562, Pltf. Exs. 79, 80). That his plan was to establish such business with Tarzian employees was known by Audio (R. 383-384, 563-564). Respondent Audio had never before been in the rectifier business or in any business utilizing silicon (R. 359-360, 476-477, 505-506, 546) and it determined to enter the business solely upon Eannarino's representation and without independent investigation, research, or employment of additional personnel (R. 512-513, 517-529, 538-545). With the full consent and knowledge of Audio Devices, Eannarino recruited the other individual employees from Petitioner's Rectifier Division.

On the evening of August 8, 1957, Audio's President, Speed, notified Eannarino that his plan had been approved by the Board of Directors and officers of Audio (R. 393, 408-410, 579 582, Pltf. Ex. 79). The following day, all of the individual Respondents submitted their resignations to Petitioner, and immediately proceeded to California to establish a rectifier plant for Audio. In less than a month, Audio announced its entry into the television and radio silicon rectifier market (R. 230, Pltf. Exs. 72, 73, 116) and by December, 1957, Respondents had achieved substantial commercial production (R. 863, 893, Pltf. Exs. 74, 75, 77).

The District Court held that Petitioner had no protectible trade secrets in its manufacturing process on the ground that the process did not measure up to its standard or definition of a trade secret. The trial court also made

findings that the Audio process differed in certain respects from the Tarzian process and that there was, therefore, no appropriation of any secrets claimed by Petitioner. Additional findings of the District Court to the effect that there was no breach of trust by the individual Respondents and no enticement by Audio necessarily resulted from its initial conclusion that no trade secrets existed in the Petitioner's process.

Petitioner appealed the holding of the District Court to the Court of Appeals for the Ninth Circuit. That Court affirmed the District Court without writing a separate opinion but, instead, adopting as its own, the opinion of the District Court. For this reason, reference will be made to the opinion of the District Court throughout the argument.

Basis of Federal Jurisdiction

Federal jurisdiction in the Court of the first instance was based upon diversity of citizenship, 28 U.S.C.A. Section 1334. Petitioner is a corporation organized under the laws of the State of Indiana. Respondent Audio Devices, Inc., is a corporation organized under the laws of the State of New York, with a place of business in the State of California. Respondents Eannarino, Parsons, Oleksy, Dohmen, Smith, Chesnut, Fries and Schuller are citizens of the State of California. The amount of damages alleged in the Complaint exceeded $3,000.00.

ARGUMENT

This is a diversity case and the law of California should have been applied as the trial court ostensibly recognized. In fact, however, the trial court and the Court of Appeals, in adopting the trial court's opinion, deliberately ignored California law in developing a concept of trade secret which excludes from protection under the law any trade secrets in manufacturing processes which consist of unorthodox combinations of well-known products and process steps. The decision is in direct conflict with the California decisions. The courts below did not merely err in interpretation but completely failed to apply the law.

For the above reason alone, this Court should grant this writ for review of the decision. Coupled with the above, however, is the fact that the question decided in this suit by the courts below assume importance which transcends the interests of the litigants involved. The case involves one of the most pressing and difficult problems facing American industry, namely, the need for assurance that successful and secret manufacturing processes will be secure, under the law, against raids by would-be competitors who seek to enter the same field of endeavor; it represents an area of rapidly expanding litigation. Although this is a diversity case, each decision in this growing body of law assumes national significance because of the tendency in this area to refer to general authority for delineation of the scope of protectible trade secrets. This Court has not ruled on a question involving trade secrets since *DuPont De Nemours Powder Co. v. Masland*, 1917, 244 U. S. 100. A definitive holding on the law of trade secrets under California law by this Court would not only remedy the failure of the courts below to

apply the law but also establish guideposts for the future in an area where the recurring problem is one of protecting the valuable assets denominated trade secrets.[2]

I. Trial Court's Definition of Trade Secret—"Discovery."

The basic element of a trade secret is that it must be secret. It must be secret in the sense that it does not consist of matters of public or general knowledge; *Aetna Building Maintenance Co. v. West*, 1952, 39 Cal. 2d 198, 246 P. 2d 11, or of merely mechanical skills and experience which employees acquire over a period of employment. *LeVine v. E. A. Johnson & Co.*, 1951, 107 Cal. App. 2d 322, 237 P. 2d 309. There are many facets to this question of secrecy as indicated in the cited California cases and in the American Law Institute, Restatement of Torts in the following language:

> "An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of its business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others." A. L. I., Restatement, Torts, Section 757, Comment b, page 6.

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2. Petitioner recognizes that, in diversity cases, pursuant to the *Erie v. Tompkins* doctrine, there is no transcendental body of federal common law apart from the laws of the particular state involved. However, Petitioner believes that the significance of the individual precedents in this area of the law lends added emphasis to the need for this Court to review the California law of trade secrets which, for all intents, parallels the general law.

Although this does not represent an exhaustive list of the factors which are generally considered by the courts in determining whether or not a trade secret exists in a certain process or product, the reference by the Restatement to the factors to be considered emphasizes that the judicial role in a trade secret case is not to determine in the abstract whether a given claimed secret achieves some esoteric quality which the trial court, in this case, termed "discovery"; but, instead, a step-by-step consideration of the factors tending to show whether or not a process, formula, or product is or is not the secret property of the claiming party.

The trial court's approach, in this case, was to measure the adequacy of the manufacturing process developed by this Petitioner against its own definition of a trade secret, set forth in its opinion in the following language:

> "[A] trade secret . . . on the whole . . . must consist of a particular form of construction of a device, a formula, method or process that is of a character *which does not occur to persons in the trade with knowledge of the state of the art or which cannot be evolved by those skilled in the art from the theoretical description of the process, or compilation or compendia of information or knowledge.*" (R. 87) (Emphasis added.)

This so-called definition of a trade secret has no foundation under California law, as will be shown in the discussion of the most recent pronouncement by the Appellate Court of California on the subject (infra p. 18), and reflects most clearly the basic error into which the District Court was drawn in its creation of a concept of "discovery" which goes beyond anything in the general law on the subject.

The definition, in effect, relegates to non-trade secret category any kind of device, formula, method or process which can, in any possible manner, be evolved by those skilled in the art from the compilation of information available to the art. It is in direct conflict with the accepted distinction between a patent and trade secret, which basic distinction is set forth quite succinctly in the Restatement of Torts as follows:

> "A trade secret may be a device or process which is patentable; but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make. Novelty and invention are not requisites for a trade secret as they are for patentability." A. L. I., Restatement, Torts, Section 757, "b", p. 6.

Although Petitioner is not contending that the trial court was unaware of the existence in the law of this basic distinction, it is a fact that the trial court introduced confusion into the law by announcing a concept which it termed "discovery" which, for all practical purposes, incorporates the mechanical improvement test applicable to patents. The trial court's definition of a trade secret led it to state dogmatically in its opinion that:

> "[T]here is no discovery when one skilled in the art develops a process for effecting certain desired results." (R. 100)

In sharp contrast the Court of Appeals for the Sixth Circuit in *A. O. Smith Corp. v. Petroleum Iron Works*, 6 Cir., 1934, 73 F. 2d 531, 538 distinguished invention and discovery as follows:

> "To entitle one to a patent, there must be invention. The applicant must have exercised some degree of

> ingenuity, displayed some flash of genius, inspiration, or imagination not within the reach of mere artisanship. That which constitutes invention has, of course, never been successfully defined. There are tests, however, which responded to, proclaim its absence; the most familiar, of course, being that leading to the determination, always difficult to make that the thing achieved was the result of ordinary mechanical skill. A process, may, however, be maintained in secrecy and be entitled to equitable protection even though invention is not present. The cases which deal with the elements necessarily present in a proprietary process are careful to define such processes as resulting from invention, or *discovery*. Quite clearly discovery is something less than invention. Invention requires genius, imagination, inspiration, or whatever is the faculty that gives birth to the inventive concept. *Discovery may be the result of industry, application, or be perhaps merely fortuitous.*" (Emphasis added.)

And, in *Franke v. Wiltschek*, 2 Cir., 1953, 209 F. 2d 493, the Court of Appeals for the Second Circuit, in holding that a trade secret existed in a simple process for compressing a face cloth into a small mass, cautioned against the use in the field of trade secrets of the mechanical skills test. The court stated (209 F. 2d at 499):

> "[S]ince the ability of a 'good mechanic' is quite an imprecise concept, its destructive potentialities in this area [trade secrets] under the natural tendency of restrictive precedents to accumulate can be forecast."

By giving new meaning to the term discovery the trial court has introduced this condemned "imprecise concept" into the law of trade secrets.

Finding no support in the California cases for its unique use of the term discovery, the trial court attempts to find

basis for its theory in three early decisions by this Court; but those cases do not support his view. Thus, *Foucle v. Park*, 1889, 131 U. S. 89, 97, 9 S. Ct. 658, 662, used the word "discovered" in a non-definitive manner to describe how the claimed trade secret was developed. *Board of Trade of City of Chicago v. Christie*, 1911, 198 U. S. 236, 25 S. Ct. 740, involved the Board of Trade's property in confidential and continuous quotation of prices on sales of grain and provisions for future delivery, and Petitioner is at a loss to determine what element of discovery, as the trial court defines that term, was there involved. The case of *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 1911, 220 U. S. 373, 382, 31 S. Ct. 376, 382, simply held that a trade secret as a "discovery" could be used by "Anyone . . . who fairly, by analysis and experiment, discovers it." This Court gave no special significance to the term "discovery," in that case and, certainly, this Petitioner would not take issue with the statement that anyone may use a secret process if he fairly *discovers* it by his own efforts.

The *A. O. Smith* case, *supra*, and the cases cited therein similarly found no special magic in the term discovery. *A. O. Smith*, *supra*, indicates that discovery may result from "industry, application, or be merely fortuitous." *Herold et al v. Herold China & Pottery Co.*, 6 Cir., 1919, 257 F. 911 defined discovery as involving more than the mere experience or mechanical skill of an employee engaged in the trade of pottery manufacture, which is merely another way of saying that the skills an employee acquires in his trade cannot be the subject of a claimed trade secret. *O. & W. Thum Co. v. Tloczynski*, 1897, 114 Mich. 357, 72 N.W. 140 did not define discovery, but found a trade secret to exist in a certain process after giving practical consideration, among other things, to the fact that em-

ployees engaged by the plaintiff there had no previous special skills in the process involved. In *Solomon v. Hertz*, 40 N.J. Eq. 400, 2 A. 379, 380, the court, in refusing to grant a motion to dissolve an injunction, held merely that:

> "One who invents or discovers and keeps a secret process of manufacture, whether patentable or not, has a property therein which this court will protect against one who in violation of contract and breach of confidence, undertakes to apply it to his own use or disclose it to a third person."

This is precisely Petitioner's contention.

None of the California cases cited by the trial court give any inkling that the mechanical skills test is applicable to the trade secret cases. *LeVine v. E. A. Johnson & Co.*, 1951, 107 Cal. App. 2d 322, 237 P. 2d 309 stands only for the proposition that an employee who had engaged in more than forty years' daily experience in the field of construction and operation of so-called cooling towers could not be enjoined from using skills and experience so acquired after taking new employ, and is inapplicable on its facts to this case. *Aetna Building Maintenance Co. v. West*, 1952, 39 Cal. 2d 198, 246 P. 2d 11 held only that, absent *prior designation by an employer of processes for furnishing janitorial services as secret* and absent evidence that such processes in any manner differed from the general accepted trade practices, there could be no claim of a violation of "trade secret" by a former employee. *Bourns v. Edcliffe Instruments*, D. C. Cal., 1954, 125 F. Supp. 503 held, without discussing the detailed nature of the claimed secret, that there could be no trade secrets in the names of customers and sources of supply if such information was obvious to the general trade. *George v. Burdusis*, 1949, 21 Cal. 2d 153, 130 P. 2d 399, is to the same effect. Relying in this manner on cases involving customer lists, ei-

ther undesignated as secrets or readily available to the trade, and upon cases involving merely employee skills, the trial court rewrote the California law of trade secrets as discussed infra at page 18. Its approach led inexorably to an erroneous reliance on "prior art" in the patent usage of that term.

II. District Court's Erroneous Reliance on Prior Art—What is Readily Ascertainable?

In the *A. O. Smith* case, *supra*, the finding by a master that certain trade secrets were in the public domain "because [they were] within the realm of mechanical skill" was held to be in error. As the court in that case correctly pointed out (73 F. 2d at 538):

> "[I]f the rule applied by the master be the true one, it would be difficult to conceive of any process whose secrecy is entitled to be protected which is not at the same time patentable except in so far as the patent law limits the subject matter of patents."

If the definition of trade secret applied by the District Court is allowed to stand, there can be no trade secret except in matters which are patentable or which approach the novelty one would normally associate with invention.

That this would be the practical, if not the intended result of the District Court's statement of the law is clear from its approach to the instant case. The court virtually ignored the facts which stand of record that Audio Devices, Inc. had no previous experience in the manufacture of rectifiers of any sort, that neither Audio nor any of the individual defendants except Oleksy had any previous experience with silicon, that, although Audio spent a considerable sum in initiating its rectifier division in California, the expenditures were for plant and equipment and

not research and development; and that in late 1957, the critical date, Petitioner alone had a successful process for the manufacture of silicon rectifiers of the radio and television type. Overlooking these undisputed facts, the Court held that, on the basis of a prodigious amount of so-called prior art references introduced into evidence, Respondents had established that the process here involved was readily ascertainable to the trade. In so holding, the trial court could not have been aware that Respondent Audio expended vastly more effort, time and money in the research incident to this trial than incident to its initiation of a silicon rectifier business.

Reliance on a mass of evidence of so-called prior art in trade secret cases has repeatedly been rejected by the courts. In *Sun Dial Corp. v. Rideout*, 1954, 29 N.J. Supp. 361, 102 A. 2d 90, 93-94, the court, in referring to such evidence, stated:

> "The fact that individual process steps are known to industry and the further fact that every product used by plaintiff . . . can be bought in the open market does not weaken the conclusion we reach. Williams . . . was able to devise a combination of products and methods which resulted in preeminently fine dial and panel work—much like a fine chef who achieves an outstanding culinary product by a sequence of blending ingredients and by timing achieved through a long period of trial and error."

In refusing to give weight to evidence which indicated general trade knowledge of individual process steps, it is interesting to note that the court in the *Sun Dial* case also alluded to the concept of discovery as enunciated in *A. O. Smith, supra.* However, the court correctly determined that the use of a well-known, proprietary paint product in an unorthodox manner, along with a combina-

tion of a number of well-known process steps, still amounted to trade secret. In contrast, the trial court below and the Court of Appeals, by adopting the trial court's opinion, held that this Petitioner had no trade secret because, in their estimate:

> "Whether a method is or is not unorthodox does not determine its validity as a secret. It is whether it is unique and unknown in the trade that is important, or whether there is discovery in selecting between alternative steps." (R. 112)

The Court apparently intended, by this statement, to hold that unorthodox combinations of individually well-known process steps could not be secret. By so holding, it determined that unless the processes involved were proprietary and unique in the inventive sense, there can be no trade secret.[3] This is just not the law.

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3. The trial court, in so concluding, chose to find something damaging in what it termed an admission by Petitioner's expert which developed in the following colloquy, (R. 930):

"The Court: These various processes which you have described for us are recognized methods in the art of achieving the things that we have in mind? For instance, the pulling of crystals is a recognized method of transmuting the multipoly crystalline to a uni-crystal by the method of what has been called etching. Etching is a method of cleaning metals and there are various methods of achieving that end either by polishing or running them through various compounds, the qualities of which are known to chemists and persons in the field.

"Every step in this process is a recognized process in the particular industry, is it not?

"The Witness: That is a very general question. I believe the answer to that would be yes, there are very few processes that are used which are not used in some other way. Certainly we etch lamp bulbs—lamp bulbs, for example, are etched.

"Crystals of synthetic quartz are nowadays.

"The Court: And what you have outlined as you say is the uniqueness of the process as practiced, was that they used what you call unorthodox methods of arriving at certain results. Isn't that true?

"The Witness: Well, this is certainly true—some of the processes that are used—in fact, several of the processes which are used there are in direct conflict with the overwhelming preponderance of processes that are outlined in the literature.

"The Court: As applied to this particular art?

"The Witness: Yes, that is right."

The above colloquy was quoted by the trial court in its opinion at R. 142.

Evidence of prior art was similarly given little weight in the case of *Heyden Chemical Corp. v. Burrell & Neidig*, 1949, 2 N.J. Supp. 48, 64 A. 2d 465, which involved alleged trade secrets in processes for the manufacture of formaldehyde and pentaerythritol. The New Jersey court in that case held that evidence of the prior art consisting of some 800 to 1000 references dealing with the production of formaldehyde and 500 to 600 dealing with the production of pentaerythritol did not support the defendant's contention that the claimed processes were part of the general knowledge of the trade. The court observed that the processes of manufacture of both chemicals consisted of a number of integrated steps known to the trade, that the basic ingredients were well-known to the chemical profession, and that there existed numerous articles, patents and treatises relating to the manufacture of the chemicals. The court pointed out, however, that (64 A. 2d at 467):

> "[O]nly a person who knew the Heyden process [claimed secret] could make the selection of literature references which were offered in evidence."

It is equally clear in the present case that only by being aware of the Tarzian process for manufacture of rectifiers could defendants select the literature references to be put in evidence in support of their contention that the Tarzian process was well-known to the trade. For this reason, courts have repeatedly held irrelevant literature showing only general non-definitive steps or parts of a process or product or showing only isolated fragments of a process or product.[4] See *L. M. Rabinowitz v. Dasher*,

4. Counsel for the Respondent indicated the approach followed by Respondent in the presentation of a conglomerate of prior art references in the following statement (R. 1346):

> "[W]e have never represented that this patent teaches every step in the art. We have used it to illustrate that it teaches one or two of the steps, but not every step."

By knowledge of the Tarzian process the Respondents could assuredly locate patent references to the individual steps.

1948, 82 N.Y.S. 2d 431, 438, *Schavoir v. American Rebonded Leather Co.*, 1926, 104 Conn. 542, 133 Atl. 582; *Extrin Foods v. Leighton*, 1952, 281 App. Div. 772, 115 N.Y.S. 2d 429; *Monsanto Chemical Co. v. Miller*, D. C. Utah, 1958, 118 U.S.P.Q. 74; *Head Ski Co. v. Kam Ski Co., Inc.*, D. C. Md., 1958, 158 F. Supp. 919, 923; *Allen Mfg. Co. v. Loika*, 1958, 145 Conn. 509, 144 A. 2d 306; *Stone v. Goss*, 1903, 65 N.J. Eq. 756, 55 Atl. 736; *Minnesota Mining & Mfg. Co. v. Technical Tape Corp.*, N. Y., 1959, 123 U.S.P.Q. 96.

III. Direct Conflict of Trial Court's Holding With California Law of Trade Secrets.

On the basis of the trial court's definition of "discovery" which incorporated the mechanical skills test of the patent law and which led the trial court to false reliance on prior art references, the courts below completely ignored the applicable California law. The decision by the California Appellate Court in *By-Buk Co. v. Printed Cellophane Tape Co.*, 1958, 163 Cal. App. 2d 157, 329 P. 2d 147 (rehearing denied September 12, 1958; petition for hearing denied October 22, 1958) is the most recent and illuminating discussion of that law. The case was decided subsequent to the decision of the trial court, but prior to the affirmance of the lower court's holding by the Court of Appeals. It represents a definitive restatement of the accepted law of trade secrets of the State of California which the courts below chose to ignore; but which, having been decided while this case was *sub judice*, was binding on the lower courts. See *Vandenbark v. Owens-Illinois Glass Co.*, 1940, 311 U. S. 538, 51 S. Ct. 347.

In the *By-Buk* case, the plaintiff was a manufacturer of masking discs and die cut masks of pressure sensitive tape

for use in shielding industrial apparatus from abrasives or paint. The machines and processes to manufacture such products were in use by an Eastern competitor, but plaintiff had been unable to purchase machinery and know-how to affect this production. It, therefore, undertook *independent* experiments to develop its own machines and processes. Plaintiff was successful in developing machinery to secure the desired results, but, subsequently, one of its employees terminated employment and went to work for a competitor, who immediately entered business in competition with plaintiff using similar machinery and methods. The California Appellate Court held that the plaintiff had a protectible trade secret and that an injunction against appropriation by defendant was proper.

The California Appellate Court held that although it had been stipulated at trial that all component parts of the machines developed by plaintiff were standard parts procurable on the open market, defendant's contention that the machines made of such standard parts could not be unique or unusual was properly rejected. The court pointed out that in making this assertion, the defendants misconceived the elements of a trade secret. The court noted:

> "It is not necessary in order that a process of manufacture be a trade secret that it be patentable or be something that could not be discovered by others by their own labor and ingenuity. Restatement, Torts, Volume 4, Section 757, Comment B, Page 5, defined the term as follows: 'A trade secret may consist of any formula, patent, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. * * * Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article.'

> "The character of the secret if it is important to the business is not material but it must, as the term implies, be kept secret by the one who claims it. Riess v. Sanford, supra, 48 Cal. App. 2d 244, 246, 117 P. 2d 694, Restatement, Torts, Volume 4, Section 757, Comment B, pp. 5, 6."

After thus stating the definition of a trade secret, the California Appellate Court held that plaintiff's machines were trade secrets. It was apparent to that court that plaintiff's technique of combining, through a system of trial and error, various parts, which were apparently known to the trade, in order to produce the results he desired bore fruition in a protectible trade secret embodied in the machines which plaintiff had developed. The court went on to say:

> "It is undoubtedly true that if Tape Company [defendant] had used the same thought, labor and ingenuity which were used by plaintiff it might have been able to secure the same results that plaintiff did. But this fact does not destroy plaintiff's right not to have its processes wrongfully disclosed to others and used to its detriment."

The ruling of the Court in the *By-Buk* case could never obtain under the decision of the trial court in this case. According to the trial court, the mere fact that an eastern competitor had achieved the desired result (a combination of known, standard products) from its study of the knowledge in the art, and that there was, indeed, enough information in the art to guide the plaintiff as a skilled mechanic in arriving at the desired result would have defeated any claim of trade secrecy. The plaintiff in the *By-Buk* case did not "discover" anything in the manner suggested by the trial court but, by a patient system of

trial and error, he combined various parts from known processes and devices to achieve a protectible trade secret. In a sense this is discovery and this concept of "discovery", as applied by the California court in the *By-Buk* case, parallels the true concept of discovery as set forth in the *A. O. Smith* case, *supra*.[5] As stated in the *A. O. Smith* case (73 F. 2d at 538):

> "The mere fact that the means by which a discovery is made are obvious, that experimentation which leads from known factors *to an ascertainable but presently unknown result* may be simple, we think cannot destroy the value of the discovery to one who makes it, or advantage the competitor who by unfair means, or as the beneficiary of a broken faith, obtains the desired knowledge without himself paying the price in labor, money, or machines expended by the discoverer." (Emphasis added.)

Thus, the courts below have not only ignored completely the governing California law, they have also created a precedent which will engender great doubt and confusion as to the nature of a protectible trade secret under the laws of California and generally.

IV. Appropriation of Alleged Trade Secrets—Improper Standard Applied by Trial Court.

The courts below, in addition, have provided a defense to wrongful appropriation which has no possible basis under California law. Respondent Audio Devices, Inc. had

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5. A previous decision by a California trial judge, Judge Praeger, in *Lee* v. *Samburn*, 1952, 94 U.S.P.Q. 153 paralleled the *By-Buk* discussion of the law of trade secrets in California. Judge Praeger noted that there were few California cases on trade secrets, other than so-called customer list cases. He relied heavily on the general law. The trial court, when referred to this decision, stated that although he would consider the case he was not bound by the holding. (R. 1270.)

never previously engaged in the manufacture of any rectifier device and had never worked with silicon. Yet, within one month after establishing its plant in California, it was producing rectifiers in competition with Petitioner. There was no evidence and no finding that Audio Devices independently developed its own process; the only finding in this regard is that Audio Devices spent great sums of money to develop their new division. Initial investment by Audio was $800,000 for a plant to house its new division (R. 102). An additional $200,000 was expended for equipment; there is no indication that any money was expended for research and, indeed, there was no time allowed in which to conduct research prior to Audio's entry into competition with Petitioner. Minor variations were introduced in the Audio process, but these minor changes would not support the District Court's conclusion that there was no appropriation of the Tarzian process.

The trial court's approach to this question indicates that it had already determined that there was no trade secret in the Tarzian process because of a lack of "discovery". Its review of the so-called differences between the Audio and Tarzian processes was thus immaterial and unnecessary to its final conclusion; and was accomplished without regard to applicable law. Indeed, the trial court states in its opinion, which was adopted by the Court of Appeals that:

> "[T]he differences between the two processes under discussion here appear as the conscious attempt by former employees not to infringe upon whatever element of selectivity between alternative procedures there may have been in the Tarzian process." (At R. 128)

If, in fact, the Tarzian process were the secret process and

property of Petitioner, no amount of conscious effort on the part of Audio and the individual Respondents to modify their process in order to avoid infringement would avail them under the law. In the case of *By-Buk Co. v. Printed Cellophane Tape Co., supra*, similar evidence of changes, modifications and even improvements in the appropriated process was held to have been correctly excluded by the trial court. The California Appellate Court held flatly that:

> "[D]efendants cannot escape responsibility by showing that they have improved upon or modified plaintiff's process. Even though they may have modified or improved the plaintiff's process, they are still wrongfully using its property." (329 P. 2d at 154.)

In so holding, the Appellate Court of California relied on the Restatement of Torts, Section 757, Comment "C" as authority. It is provided in that comment to the Restatement that:

> "To subject a person to liability, under the rules stated in this section, for the use of another's trade secret, there is no requirement that he use it in exactly the form in which he received it. He may be liable even if he uses it with modifications or improvements upon it effected by his own efforts."

In the case of *Tower Manufacturing Company v. Monsanto Chemical Works*, D. C. N. Y., 1927, 20 F. 2d 386, Judge Agustus Hand observed:

> "I cannot think that the fiduciary obligation of one bound not to disclose a secret process or not to use such a process that has been improperly disclosed, is not violated, where the process employed is used to produce an identical result in ways directly suggested by the disclosure, though slightly different from it in detail."

Courts in a number of other jurisdictions have similarly held that variations or modifications in a process or product which was admittedly appropriated by the defendant were no defense to the charge of wrongful appropriation. *Booth v. Stutz Motor Car Co. of America*, 7 Cir., 1932, 56 F. 2d 962; *Harris Mfg. Co. v. Williams*, D. C. Ark., 1957, 157 F. Supp. 779; *Head Ski Co. v. Kam Ski Co., Inc.*, D. C. Md., 1958, 158 F. Supp. 919; *Scharoir v. American Rebonded Leather Co.*, 1926, 104 Conn. 842, 133 Atl. 582, 583.

In this case, Respondents made no effort to show independent development of their process, and, as the trial court indicated in its opinion, any differences in the processes were occasioned by the conscious efforts of Respondents to avoid obvious infringement of the Tarzian process. If the holding of the trial court, as affirmed by the Court of Appeals for the Ninth Circuit is allowed to stand, providing as it does a complete defense to wrongful appropriation of a secret process through minor modification or change in the process, no trade secrets are safe from the encroachments of industrial raiders.

V. Conclusion.

The trial court, and the Court of Appeals in turn, have, contrary to California law, determined that a trade secret cannot exist in a unique combination of well-known process steps. These courts have injected into the law of trade secrets the test more appropriate to determination of patentability, i.e., the test of whether the device or process involves more than the assumed ability of a mechanic skilled in the art; and, under the terms of the District Court's opinion, as a practical result, discovery has become the equivalent of invention.

In the language of the Court of Appeals for the Second Circuit in *Franke v. Wiltschek*, *supra*, at 498-499:

> "There may, it seems, be considerable danger in stressing in this branch of the law [trade secrets] the assumed ability of a 'good mechanic,' a concept often useful in highlighting the lack of novelty of an alleged patent. Even as to patents the capability of that ubiquitous genius has been questioned and his destructive effect on the law of inventions somewhat deplored. Be that as it may, there is positive danger in resort to the same device to justify the marauding instincts of trust violators, since thereby the carefully built law of trade secrets may be destroyed as a practical matter and such business assets be left open to hijacking from all sides. In practice the complicated and novel device is likely to be patented, leaving protection of simpler devices wrongly exploited to this branch of the law. And since the ability of a 'good mechanic' is quite an imprecise concept, its destructive potentialities in this area under the natural tendency of restrictive precedents to accumulate can be forecast."

The destructive potentialities thus forecast have become actuality under the holding in this case. These destructive potentialities confront all industrialists, large and small, who count trade secrets among their assets. This decision is, in fact, a clear blueprint for industrial theft.

It is respectfully requested that the Petition for Writ of Certiorari be granted.

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Christopher Kirages,
Attorneys for Petitioner.

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SARKES TARZIAN, INC., a Corporation,

Appellant,

v.

AUDIO DEVICES, INC., a Corporation, et al.,

Appellees.

No. 16,431
Nov. 21, 1960

APPEAL FROM THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA
CENTRAL DIVISION

Before: STEPHENS, BARNES and JERTBERG, Circuit Judges Per Curiam

The judgment is affirmed on the basis of the opinion filed in the case by the learned District Judge, and reported at 166 F. Supp. 250.

(Endorsed) Per Curiam Opinion Filed Nov. 21, 1960.

Frank H. Schmid, Clerk.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SARKES TARZIAN, INC., a Corporation, *Appellant*, v. AUDIO DEVICES, INC., a Corporation, et al., *Appellees*.	No. 16431

JUDGMENT

Appeal from the United States District Court for the Southern District of California, Central Division.

This cause came on to be heard on the Transcript of the Record from the United States District Court for the Southern District of California, Central Division, and was duly submitted.

On consideration whereof, it is now here ordered and adjudged by this Court, that the judgment of the said District Court in this cause be, and hereby is affirmed, with costs in favor of the Appellees and against the Appellant.

It is further ordered and adjudged by this Court that the Appellees recover against the Appellant for their costs herein expended and have execution therefor.

(ENDORSED)

Judgment: Filed and entered
November 21, 1960

FRANK H. SCHMID, Clerk